

BOARD MEMORANDUM

DATE: October 17, 2018

TO: Board of Trustees, Utah School & Institutional Trust Lands Administration (SITLA)

FROM: Tom Faddies, Assistant Director/Minerals
Jerry Mansfield, Resource Specialist

RE: Other Business Arrangement (OBA) – Non-Competitive Lease of Potash and Mineral Salts Lease, Grand County, Utah, A1 Lithium Inc.

LANDS PROPOSED FOR LEASE:

T25S, R20E, SLB&M
Sec. 32: All

Grand County
640.00 Acres

Fund: School

APPLICANT: A1 Lithium Inc.
1108 E South Union Ave
Midvale, Utah 84047

As provided for under Utah Code Anno. 53C-2-401(1)(d)(ii), which permits the Board of Trustees to approve “other business arrangements”, A1 Lithium Inc.(A1) on July 9, 2018, submitted a proposal to lease, under the Potash and Mineral Salts minerals lease categories the above-referenced land. The reason this action requires Board approval is the lease was not originally offered via any competitive lease process.

This proposed OBA has been reviewed by the SITLA Board’s Mining Committee and they have recommended the Board consider it for approval.

Section 32 Lease History

Section 32 is a regular School Trust section that came to the State through U.S. Patent 43-66-0087 issued October 10, 1966. The lands of section 32 have been leased on and off for metalliferous minerals, oil and gas, and potash since as early as 1965. The last Potash lease terminated in 1983; There is currently an Oil, Gas and Hydrocarbon lease on the North half and Southeast Quarter of the section.

Background

The current Oil, Gas, and Hydrocarbon lease ML 49667 was issued to Intrepid Oil & Gas LLC through a competitive bid and began on March 1, 2005. After several assignments the lease ownership and operating rights came to Fidelity Exploration & Production Company; they

completed the Cane Creek 32-1-25-20 Well, API 4301950049, in 2014. Though the well struggled to produce in paying quantities SITLA extended the lease. On March 12, 2018 SITLA approved the assignment of the Oil, Gas, and Hydrocarbon lease to A1 Lithium Inc. A1 took ownership of the lease for access to the Cane Creek well. Since they have taken possession of the lease they have tested the brines from several levels in the well for lithium, as well as other mineral salt ions. In addition to testing the brines, A1 has also worked toward developing a method for production of lithium and the other ions for commercial sales.

Proposal

A1 Lithium Inc. has proposed that their current Oil, Gas, and Hydrocarbon lease be amended to grant them the rights to potash and mineral salts and expand the lease to the full 640 acres of section 32. A1 is also in the process of obtaining an Industrial Surface Use Lease Agreement (SULA) to place their processing plant for the production of lithium and other mineral salts. The current Oil, Gas & Hydrocarbon lease is beyond its primary term and the SITLA Oil & Gas Group intends to issue a new Oil, Gas, and Associated Hydrocarbons Lease to replace the current lease. A1 Lithium intends to use the current well pad for a pilot plant to recover the potash and mineral salts. They have applied for an Industrial SULA for a full scale plant that would process brines from their SITLA lease as well as claims that they hold on federal lands.

Recommendation

The Trust Land Administration Mining and Oil and Gas staff have reviewed the A1 Lithium proposal and recommend that the Board of Trustees, of the School and Institutional Trust Lands Administration, grant approval to issue an “Other Business Arrangement” (OBA) lease to A1 Lithium for Potash and Mineral Salts that will enable them to produce Potassium Salts as well as Salts of Lithium, Boron, Bromine, Magnesium, Sodium and Calcium. A1 Lithium may also have the opportunity to produce oil and/or gas through a new lease that will be issued for Oil, Gas and Associated Hydrocarbons. The issuance of the Potash and Minerals Salts OBA lease will include the following conditions:

- One - time Bonus bid of \$5.00 per acre (\$3,200.00)
- Standard Annual Rental rate for Potash and Mineral Salts lease (\$4 per acre, total \$2,560.00)
- 5% production royalty
- Ten year lease term.

Respectfully Submitted by:

Tom Faddies
Assistant Director of Minerals

Jerry Mansfield
Resource Specialist